Approaches to financing charitable work: tracking developments - January 2006

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This paper is an update to *New approaches to financing charities and other social enterprises – A snapshot* published in May 2003

Contents

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Introduction

This publication refers to approaches to financing charitable work ie the provision of loans and the taking of equity in organisations advancing charitable purposes[1]. Such approaches can be traced back to efforts by eighteenth and nineteenth century philanthropists in both the UK and US to develop affordable housing for those on low incomes and to provide those without other backing the capital necessary to set up in business.

Renewed interest in approaches other than grant aid to financing charitable work has had three main drivers:

Growing awareness of the need for capital funding

In the early to mid 1990s there was evidence that mainstream financial institutions were reluctant to lend to charities and voluntary organisations (see the next section for a fuller discussion). However, an increasingly professionalised voluntary sector needed both development and working capital to grow and develop. So, for example, in 1995 CAF set up Investors in Society (which developed into Charity Bank) and, in 2002, launched Venturesome.

In the early 2000s, government recognised both the need for investment to encourage and sustain community enterprise and to build voluntary sector capacity to deliver public services. It therefore sponsored both the Adventure Capital Fund and Futurebuilders.

A government concern to encourage investment in disadvantaged areas

At the turn of the century the government sought to encourage investment in disadvantaged areas. In 1999 the Policy Action Team report *Enterprise and Social Exclusion* considered the issue. One response was the Phoenix Fund which supports community development finance. In 2000, the Social Investment Task Force, an initiative of the UK Social Investment Forum, produced an important series of recommendations which were accepted by government. These recommendations included proposals to encourage charities, particularly grant making foundations, to make loans and grants to community finance initiatives.

Strong advocacy from a number of influential organisations and individuals

At the turn of the century a number of influential organisations were seeking to promote new approaches to financing charitable work including CAF, the New Economics Foundation and the Development Trusts Association. A small number of key individuals were also acting as effective advocates including Michael Brophy, David Carrington, Ed Mayo, Geraldine Peacock and Matthew Pike.

This paper updates *New approaches to financing charities and other social enterprises – A snapshot* published in May 2003. This said in its preface:

Only a few years ago, offering investment in its various forms to charities and other social enterprises was regarded as new and radical. There are now a variety of providers testing out models and even more individuals and organisations willing to promote the approach… [However,]… the market is in its infancy.

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[1] This could be charitable work undertaken by a charity or voluntary organisation or a private sector organisation.

Since 2000 and the publication of the Social Investment Task Force report there have been many developments which this publication seeks to chronicle. For a basic mapping of the territory including a survey of the range of providers and their characteristics, see the earlier *Snapshot* publication.

Context

Many charities and other voluntary organisations have in the past found it difficult to raise funds to invest in the growth or development of their services. This is for a number of reasons.

The funding method most familiar to charities is grant aid. Most grants meet the recurrent costs of time limited projects or one-off capital projects in some particular sub sectors (eg the arts and education). They tend not to be readily or widely available for:

- asset purchase
- core costs
- projects aimed at developing the human capital of the organisation

Many grant makers are also reluctant to fund the initial costs of new income generating services. These may be regarded as too risky and/or too ‘commercial’ for grant aid.

Charities and other voluntary organisations should be able to access loan finance from commercial providers like the banks. However, in the past they often found this difficult. A major disincentive for the banks was the cost associated with assessing applications from voluntary organisations. This is because these applications did not fit the model mainstream banks were used to. For example, often a voluntary organisation will not be able to offer security or it may not have experience of running the type of initiative for which financing is sought. Such factors mean that the application requires more attention and in the past most mainstream banks were unwilling to invest the time[2]. As a result specialist providers of finance to voluntary organisations including Charity Bank and Venturesome emerged.

There is now some evidence that mainstream banks are increasingly lending to voluntary organisations, in some part because the experience of specialist providers indicates that financing social projects is not more inherently risky than financing purely commercial projects. Indeed, voluntary organisations appear to be no more likely to default than other small businesses[3].

Some experts[4] refer to significant ‘latent’ as against ‘actual’ demand for loan and equity or quasi equity financing. In other words many voluntary organisations might benefit from such financial tools but trustees are either unaware of or reluctant to consider these options. This is for a number of reasons. Grant aid presents no financial risk for the organisation whereas a loan commits it to a particular level of financial performance. Trustees (or board members) characterise loans as risky and expensive and are worried about personal liability. Loans do present some risks but in the right circumstances can enable voluntary organisations to achieve key outcomes more quickly and cheaply than would grant aid[5].

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[2] For a fuller discussion of this issue see *The Financing of Social Enterprises: A Special Report by the Bank of England*. The Bank of England (May 2003).
[3] Expert input. For example, Co-operative and Community Finance’s (ICOF’s) and Venturesome’s recent annual reports show very low default rates.
[4] In the course of the research for this paper a number of experts have contributed including: David Carrington, Ray Sheath, Charlie O’Malley, Michelle Giddens, Mark Campanale and Sarah McGeehan.
[5] For example, an organisation launches a multi million pound appeal for a capital development. Persuaded to consider loan finance from specialist providers – it goes on site in eighteen months. Its construction bill is therefore 20 per cent less than originally planned.

Increasingly experts are also differentiating between the different forms of financing available to voluntary organisations (see box 1 which sets out some of the available options). Some argue that loans may not be an appropriate financing tool for new or relatively small voluntary organisations without an established track record. They suggest that other financial tools such as forms of quasi equity may better meet their needs (see box 1). However, such tools are even less familiar to trustees than loans or more mainstream equity finance.

So far the discussion has focused on charities and other voluntary organisations. However, the term social enterprise is also often used to encompass private sector companies with social purposes. Such organisations can also find it difficult to raise finance because their social purposes are often believed to compromise financial return.

Box 1

Ways and means of financing

The providers discussed in this report help charities and other organisations with social purposes grow and develop by providing:

Pre funding of capital fundraising – an organisation is fundraising for a new building. It wants to take advantage of a fixed contract price for building work. A bridging loan enables it to proceed.

Provision of working capital – an organisation may have secured funding but may have to wait to receive it (for example, payment terms are quarterly in arrears). Working capital underpins cash flow in the short term.

Provision of development capital – development capital enables organisations to invest in training or new facilities and equipment. This investment may help organisations to develop income streams which contribute to their viability over the medium to longer term.

The support offered takes a variety of forms including:

- loans for projects if finance can not be found elsewhere (stand-by facilities/underwriting);
- secured and unsecured loans;
- loan guarantees;
- a loan which is only repayable by a royalty on future sales of a product or service (quasi-equity);
- a royalty deal which shares profits with the investor once the enterprise generates a specified surplus (quasi-equity);
- the subscription or purchase of shares in a social enterprise (NB a charity can not offer shares – assets are held for the public benefit).

Tracking developments

The supply of finance

Specialist providers

In 2000 when the Social Investment Task Force published its report, few organisations were providing loan or equity or quasi equity finance in support of charitable work. The Task Force pointed to some banks and other financial institutions providing loans and investments for underinvested communities, including Triodos and the Unity Trust Bank. It also referenced 11 providers of community development loan funds and micro finance across the UK and remarked that there were no specialist providers of equity.

A large number of providers have entered the market and the volume of business has increased

Between 2000 and 2005 there has been significant growth in the number of providers of loan or equity or quasi equity finance for charitable work. For example, The Community Development Finance Association now has 66 Community Development Finance Institutions – CDFIs[6] - in membership (up from 20 in January 2003 when it was first launched).

This growth also means an increased volume of business. The CDFI sector is still relatively young. In 2004, over 40 per cent of CDFIs were yet to offer finance or only began their financing activities in the last year (a decrease of 10 per cent over the previous year). However, the volume of their activity has increased dramatically between 2003 and 2004 – during this period CDFI capital grew by 80 per cent (standing in 2004 at £400 million). The value of loans and investment in 2004 had also almost doubled to £18 million[7]. These figures can not be equated directly with investment in charitable work, not least since some CDFIs focus on personal finance. However, research by the CDFA demonstrates that the largest proportion of CDFI lending by value is to organisations.

Another important development has been the leading role played by government departments in establishing funds. The Home Office, together with other government departments and a number of Regional Development Agencies, launched the Adventure Capital Fund in 2003 with a £2 million investment. Futurebuilders launched in 2004, made its first investments in 2005 (see the box below for further information). One notable feature of both these funds is that they provide patient capital. Characteristics of patient capital are that finance is offered on a long term basis and on soft terms (eg capital/interest payment holidays and deferments and sub-market financial returns[8]).

Charities have also played an important role. In 2002 CAF launched Venturesome to provide finance in the space between a grant and a loan. Venturesome is supported by grant making foundations – as are many CDFIs (see below). In the same year Charity Bank was established building on the work already undertaken through Investors in Society (launched in 1995/96).

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[6] CDFIs lend to businesses in deprived areas, to individuals for self employment or to refinance other creditors. They also lend to the under served market of charities and other not for profit organisations. Many offer business development services as well as finance. Some have attracted funding from high street banks. Examples: Aston Reinvestment Trust and Co-operative and Community Finance (ICOF).

[7] CDFA, *Inside Out: The State of Community Development Finance*, CDFA (2004).

[8] *Patient capital: a new approach to investing in the growth of community and social enterprise*, Home Office (2004).

Box 2

Government backed funds – The Adventure Capital Fund and Futurebuilders

The Adventure Capital Fund is an initiative involving amongst others, the Home Office and the Development Trusts Association. It has provided grants, underwriting, unsecured loans and 'gift equity' loans repaid if the organisation is able to afford it. Financial packages are tailored to the needs of each successful applicant. Provision has been made for development grants or bursaries to bring projects to a state of 'investment readiness'.

Futurebuilders is a £215 million fund (the Treasury made an initial investment of £125 million and have since announced a further £90 million). It aims to increase the role that voluntary and community organisations play in the delivery of public services. Investment packages will normally combine a loan, a grant and capacity building investment. The intention is that loans will be repaid from income received from the delivery of public services. Futurebuilders is led by a consortium involving amongst others Charity Bank, the Northern Rock Foundation and Unity Trust Bank.

A diversified range of financial tools are being used and new specialised funds are being established

Over the course of the last five years, providers have started to use a wider range of financing tools. CDFIs had tended to focus on debt rather than equity or other forms of financing. Some have argued that debt is difficult for small organisations developing income generating ventures because of lack of certainty about the level of return that might be provided or its reliability. An increasing number of CDFIs are now offering a wider range of products for example, micro leasing, quasi equity, returnable grants and patient capital.

Quasi equity means that the provider takes a financial stake in the venture so for example, in return for providing development capital for a new income generating initiative, the funder might receive a percentage commission. Both Venturesome and Futurebuilders have each made a few such investments. Impetus, though primarily a venture philanthropy organisation, has also begun to offer quasi equity – as has at least one grant making foundation.

As the market has developed, gaps on the supply side are being identified and initiatives launched. Bridges Community Ventures was set up in 2003, in response to a recommendation in the Social Investment Task Force report, to provide equity to businesses located in underinvested areas. In 2004 it researched the establishment of a Social Venture Capital Fund[9]. Recently, Big Invest announced that it would invest in social enterprises requiring risk finance, alongside its initial purpose of lending to other CDFIs.

Non specialist finance providers – grant making foundations and individuals

Grant making foundations are also a source of finance. Grant making foundations may do this indirectly by making grants or loans to specialist intermediaries for example, Venturesome or by making loans or taking equity or quasi equity stakes directly in organisations.

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[9] *Equity like investments for social returns*, Bridges Community Ventures (2004).

There is some limited evidence that grant making foundations are now more engaged in the provision of loan finance than they were in 2000. The Social Investment Task Force report referred to a small number of UK foundations who were engaged in this pioneering activity. A survey conducted by the Association of Charitable Foundations in 2004 revealed that 20 plus of its over 300 members had offered loan finance. Moreover two of these foundations, Esmée Fairbairn and Northern Rock have developed loans programmes which they run alongside their grants programmes. However, foundations' most important contribution continues to be grant funding for CDFIs. A CDFA members survey indicates that grant making foundations provided 24 per cent of CDFI's revenue funding in 2004. This funding helps cover revenue costs and enables CDFIs to provide finance at subsidised rates.

Individuals have also played an increasingly important role over the last five years. The New Economics Foundation (NEF) has estimated that individuals have helped to channel about £260 million to charities and other social enterprises. This includes deposits by individuals in Charity Bank, Triodos, individual shareholdings in CDFIs, investment in Ethex 'traded' companies[10] and investment in Shared Interest[11]. A small but growing number of social enterprises are selling shares or bonds to individual and institutional investors to raise capital. Examples include:

- In September 2002, the Ethical Property Company launched the then largest ever UK public share issue by a social enterprise. The company raised over £4 million to set up centres for charities, campaign groups and social enterprises. It is currently preparing for its third shares issue

- In February 2004 Triodos Bank launched a high profile share issue for the Fairtrade company Cafédirect. It was oversubscribed, raising £5 million from over 4,400 individual investors

- In April 2004, the second round Sheffield Employment Bonds went on sale. A pilot scheme in April 1999 raised £800k, mainly from past and present residents of Sheffield. The bond supports local projects which create employment and build social housing including a micro credit loan fund[12]

- Golden Lane Housing/Triodos closed a bond issue on 31st October 2003 which raised over £1.6 million. These funds are being used to provide homes for people with a learning disability

The demand for finance

Although there is a lack of hard evidence to base this view on, it is generally considered that the number of social enterprises potentially in need of finance is growing.

Recent research conducted by the Small Business Service (SBS) in the DTI suggests that there are around 15,000 social enterprises[13] in the UK with a turnover of around £18 billion. These figures are relatively small in the scheme of things - they suggest that social enterprises account for 1.2 per cent of all UK enterprises. The research examined organisations with Company

[10] Ethex enables individuals to trade shares in particular ethical companies – see the next section for more information.
[11] Started in 1990 – it has some 8,000 members who have invested more than £20 million. It uses the pooled savings of its members to provide credit to enable producers in the developing world to be paid in advance and to help fair trade develop.
[12] In research to inform the second round - 76 per cent of the pilot scheme investors who responded to survey said that they were willing to leave their investment in the bond, increase it or donate it outright - http://www.sheffieldfirst.net/news/news_20040406.htm
[13] The government defines a social enterprise as a business with primarily social objectives whose surpluses are reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders.

Limited by Guarantee and Industrial and Provident Society status. On this basis, the SBS concedes that it is likely to underestimate the number of social enterprises in the UK.

Research conducted by NCVO for its 2004 Almanac publication indicates that the voluntary sector generally is growing and becoming more entrepreneurial. In 1991 there were an estimated 98,000 general charities with a combined expenditure of £11.2 billion. In 2001/2002 over 153,000 general UK charities had a total income of around £20 billion. Voluntary organisations are also earning more of their income from selling goods and services. They earned £8.9 billion of their total income from fees for goods and services in 2001/02. (This compares with voluntary income - donations and grants - of £9.8 billion).

Some specialist providers of finance report relatively high levels of demand. Futurebuilders received 630 applications for its first applications window and made investment offers to 90 organisations. Bridges Community Ventures have received around 40 financing requests from social ventures ineligible for support from their current fund which focuses on private sector enterprises located in disadvantaged areas. The Baseline Report for the Adventure Capital Fund refers to high levels of demand for patient capital[14]. However, it also provides some words of caution about the cultural challenge new forms of financing pose charities and other voluntary organisations: 'At the outset, many of the applicants were unwilling to consider contractual relationships that entailed repayment of the capital or the payment of interest and many of the applications were couched in terms of gap funding rather than investment proposals'.

Infrastructure

A number of 'infrastructure developments' are helping to stimulate the supply of finance:

The Community Investment Tax Credit

The 2001 budget introduced a community investment tax credit (as recommended by the Social Investment Task Force). This is available both to individuals and corporations (but not charities) investing in accredited CDFIs. The tax relief is five per cent of the amount invested.

There is evidence that this tax credit has been particularly helpful in encouraging individual investment. Both Charity Bank and Triodos are now providing tax efficient investment accounts. Such accounts offer attractive interest rates. For example, Triodos Bank's Community Investor account offered a 10.43 per cent gross return to higher-rate tax-payers as part of the CITR scheme, and was fully subscribed, raising £3 million in the last quarter of 2003.

Charity Commission Guidance on Programme Related Investment

The Social Investment Task Force report recommended that the Charity Commission develop guidance on the provision by charities of programme related investment – loans offered with the primary purpose of enabling the charity to achieve its purpose. This guidance was initially published in May 2001 and revised in October 2002. In the absence of such guidance recent developments for example, the Esmée Fairbairn and Northern Rock loan programmes and significant investment by grant making foundations in Charity Bank and Venturesome would have been unlikely.

A growth in support organisations and other intermediaries

A number of support organisations or initiatives have facilitated the development of the market over recent years. Examples include:

- In early 2003 the launch of the Community Development Finance Association (CDFA) to support and develop CDFIs. This has been an important factor in the growth of the sector

[14] *Primed for Growth: Adventure Capital Fund Baseline Report* (2003)

- There are now a growing number of organisations providing both ‘back office’ and ‘front office’ services (ie the outreach needed to identify those in need of loans) to CDFIs – making it easier to establish and run such organisations

- Charity Bank provides due diligence and monitoring services for loans programmes thus making it easier for grant making foundations to engage

- Venturesome which seeks donations and loans from grant making foundations to support its provision of risk capital to charities

A new legal form – the Community Interest Company

On the 21st September 2005 the DTI announced the registration of the first thirteen Community Interest Companies (CICs). CICs can issue shares with a capped return and are subject to an asset lock. It is believed that this new legal form will in the future encourage investment in social enterprises.

Wholesalers

Research examining the feasibility of a wholesaler to raise finance for CDFIs, completed in April 2002, concluded that an interim or transitional wholesaler should be established as a catalyst for the development of the CDFI sector. It argued that this could become fully commercial as the sector developed. A partnership including Social Brokers, the Big Issue and the Bank of Scotland has developed such a transitional wholesaler called Big Invest. At least one CDFI, Prya UK Capital, is operating as a retailer and wholesaler – making direct loans and raising finance for other CDFIs.

Secondary markets in shares

Although recent share or bond issues by social enterprises (see above) have been well or even over subscribed – it is believed that one major barrier to the development of this part of the market is difficulty in trading shares. The Ethex index is one initiative which aims to help overcome this difficulty. It enables the trading of shares or bonds in for example, Café Direct and Triodos Renewables.

The Future

A number of trends and developments are likely to be of significant importance in the future.

Supply

Increased engagement by grant making foundations

Grant making foundations are likely to provide more programme related investment (see box 3) as the work of peers which have pioneered in this space is more widely discussed and better understood and as a growing number of intermediaries develop and promote support services and products which meet their needs (see the discussion of intermediaries below).

Investment plus

In the future, grant making foundations are also likely to examine how they can use their capital in support of their charitable work. Some grant making foundations in the US have already started along this path. The Heron Foundation is one notable example. It has sought out high quality investment opportunities, generating commercial rates of return, which advance its purposes (see box 3's description of investment plus). For example, it invests in a company developing housing in low income communities. Again, such investment is likely to be facilitated by the provision of appropriate services and products by intermediaries. For example, CAF is currently considering establishing a mission fund which would invest across a series of themes (such as waste management, poverty, social enterprise) aiming to produce commercial rates of return.

Greater private sector interest and involvement

Recent examples of the private sector developing innovative products in this space include HBOS 'covered bonds' providing £1 billion to finance social housing and JP Morgan with Blue Orchard securitising the Grameen Bank's loan book in Bangladesh and selling it as a fixed income security to western investors. More creative products of this kind are likely to be developed including capital guarantee structures to finance risky social enterprises – a current example is the note issued by Trapezia to finance their women's entrepreneurship fund[15].

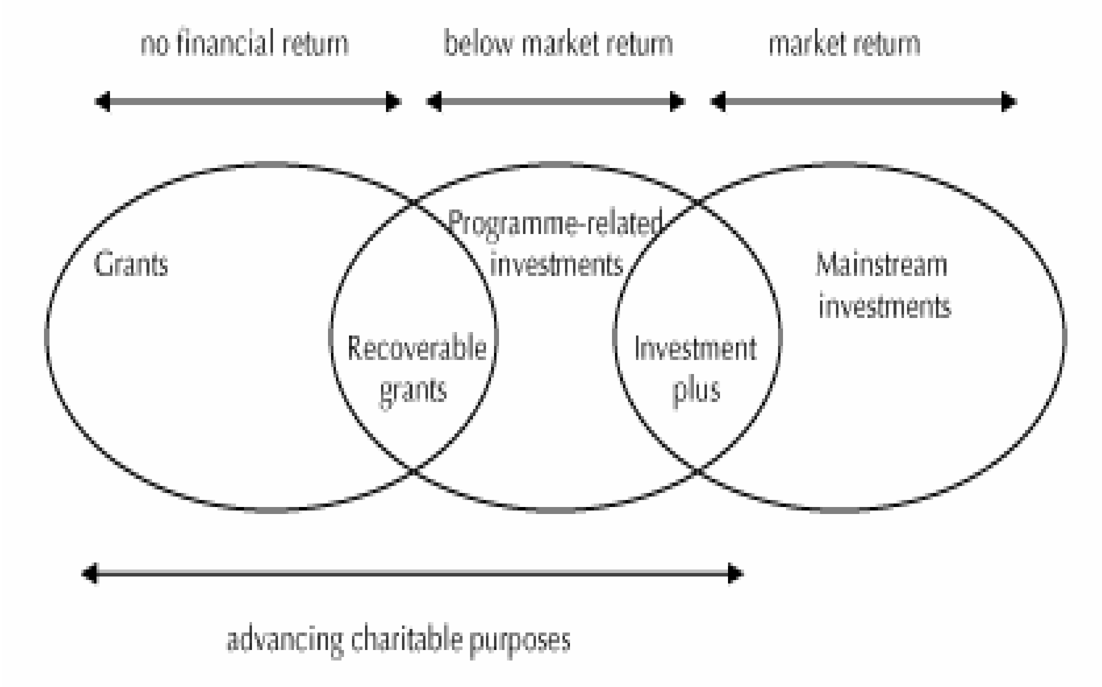
Individuals making a greater contribution

It also seems likely that individuals will increase their contribution. The last section noted levels of individual investment in social enterprises. There are other indications that more private wealth is likely to be invested in support of charitable work in the future. At least two private banks - UBS and JP Morgan - have been working with high net worth individuals to encourage them to consider both the social and the financial return of their investments. The objective being to help these investors develop a mixed or diversified portfolio that best meets their financial needs and social interests – such a portfolio might include philanthropy, below market rate but high social return investment and conventional investment. Efforts by particular faith groups to influence the investment practice of the laity will also have an impact (see box 4 below).

[15] Thanks to Mark Campanale from Henderson Global Investors for this point and examples.

Box 3 **Grant making foundations**

There is a continuum of different methods grant making foundations use to finance charitable work. At one end are outright gifts or grants and at the other are loans or other investments made on a commercial basis



Programme related investments, in the middle, are loans or equity purchases, funded from income or capital, with the primary aim of advancing the organisation's charitable purposes.

Socially responsible investment has its place in the mainstream investments box. Here, Loans, equity or fixed asset purchases are made from capital, with the primary aim of producing income or appreciation in value but with some weight given to social considerations in choosing which investments to make and/or how to manage them.

Socially responsible investment takes a variety of forms: positive and negative screening of investments and shareholder action. Where positive screens are used and investments are selected which also advance the charities' purposes, this activity is called in this report *investment plus.* It is sometimes known in the US, where it is more prevalent, as mission related investment.

An extract from *Foundations and social investment: making money work harder in order to achieve more*, Esmée Fairbairn (2005)

Box 4

3iG – the international interfaith investment group

3iG aims to encourage faiths to pro-actively invest in activities which are supportive of the principles and teachings of their faiths. While there has long been a tradition of some faiths using screening policies to avoid investing in certain harmful activities like alcohol or gambling – programme related investment and investment plus (see box 3) has been much less common.

First mooted in 2000, 3iG helps to develop clusters of faith investors seeking to take on a particular challenge. It says that its focus is 'innovative investment with the potential for a good return as well as beneficial social and environmental consequences, such as alternative energy and micro-financing'. One of the distinctive features of faith investors it argues is that their investment strategy takes 'a longer view'.

Each faith joining 3iG has to agree that the socially responsible investment policy it develops for institutionally held funds will also be passed on to its laity. The intention is to mobilise the investment power of individuals by providing them with a pro-active faith based investment policy to guide their own investments. Citigroup estimated in 2002 that while the Methodist church had $12 billion invested, the Methodist laity had investment savings of $250 to $500 billion.

A greater use of intermediaries

As experience grows and the market starts to mature a range of new products and services are likely to be developed to service it, for example, products and services to:

- assess due diligence and the monitoring of organisations receiving finance;
- help organisations become 'investment ready';
- broker financial packages (as time goes on – deals are likely to become more complex and involve multiple partners);
- pool funds from individuals or organisations which can be used to make loans or equity or quasi equity investments;
- market and provide access to 'investment plus' opportunities.

Such products and services will in the future encourage both the supply of and demand for finance.

Demand

Demand for loans and equity and quasi equity to support charitable work is likely to grow. The Global Social Ventures Competition demonstrates that an increased number of entrepreneurs interested in starting businesses with social purposes are emerging from the Business Schools. Meanwhile, charities and other voluntary organisations are becoming more aware that such financing tools are an option because of the publicity generated in the sector by high profile government initiatives like Futurebuilders and the loan programmes developed by grant making foundations.

Opportunities and Challenges

This section considers likely future opportunities and challenges.

An increasing emphasis on capacity building

Specialist providers of finance tend to emphasise the importance of the advice and support they offer. Some report that in many instances this is as, if not more, important to the success of the initiatives they finance than the cash investment. Providers are over time developing knowledge about what support organisations need and how this might best be provided. For example, the Adventure Capital Fund has recently undertaken a review of all its investees and their support needs. It has categorised these into eight different kinds of support. This and similar work provides an opportunity to disseminate learning about capacity building and influence a range of funders including the public sector and grant making foundations.

A focus on social return

Measuring social return presents a distinct challenge. Some existing methods are considered too time consuming and expensive yet still do not provide satisfactory answers to the tricky question of attribution[16].

The engagement of small foundations

It is generally assumed that only large foundations with significant staff and cash resources are likely to use the full range of financing tools available. However, a number of small foundations in both the UK and US are providing loans, equity and quasi equity finance as a means of making limited resources go further and of encouraging greater sustainability in the voluntary sector. This suggests that a proportion of small and medium sized foundations might be interested in the mechanism of a pooled loan or investment fund or funds on the model of the Cooperative Assistance Fund in the US[17].

Developing new financial products/intermediaries

Opportunities exist to develop new financial products and new financial intermediaries. For example, new bond issues to finance onward lending and specialist organisations whose role is to raise funds from individuals and companies, both for profit and not for profit, for onward lending[18].

Partnerships between providers

As financing deals become more complex and involve more partners, providers will need to collaborate more in the interests of efficiency for example, allocating responsibility amongst themselves for due diligence and monitoring work.

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[16] A likely development is that organisations providing financing think more creatively about how to maximise the social return of their investments. There are examples from the US of funders requiring organisations to make repayments in the form of specialist consultancy services, in management areas in which they have acknowledged strengths, to other charities and voluntary organisations. Thanks to David Carrington for this point.
[17] Foundations could join the Cooperative Assistance Fund in one of two ways: by making an initial investment of at least 2 per cent of its assets or $1 million whichever was lower, or by making annual grants to the Fund of at least $100,000 a year. The Fund's members have included the following members: the Field Foundation; New York Foundation; Norman Foundation; Ellis L. Phillips Foundation; Rockefeller Brothers Fund and the Taconic Foundation. See *Foundations and social investment* for more information.
[18] Cf The US Calvert Social Investment Foundation.

More creative partnerships with the private sector

Opportunities exist for the development of more creative partnerships with the private sector. For example, in Europe at least one foundation has guaranteed the loans provided by a mainstream bank to individuals and businesses falling within its beneficiary groups. Specialist providers have assessed these loan applications for the bank. Their expertise has ensured low default rates encouraging the bank to enlarge and extend the initiative.

Promoting the involvement of the mainstream banks

The default rates of specialist providers supporting viable voluntary sector projects are very low. This appears to be encouraging mainstream banks to finance voluntary organisations (see the context section for more information). In theory at least, this reduces the space available for specialist providers. In the future this may threaten the viability of some and encourage others, if they are to have a distinctive role, to fund more financially risky but high social return projects.

Shared learning/developing a knowledge base

Over time the knowledge base of specialist providers will grow – a key challenge will be to ensure that evidence about which financial tools work best for which organisations in which circumstances is collected and disseminated.

Maintaining government support for CDFIs

The Phoenix Fund which has been an extremely important source of revenue and capital funding for CDFI's[19] will cease shortly. Regional Development Agencies will in future be responsible for CDFI funding. In response to concerns about the possible impact of this change on the sector - the Treasury has committed £11 million in two year transitional funding for CDFIs to be distributed by the Regional Development Agencies. CDFIs, although working towards self sufficiency[20], continue to need capital and revenue funding to help build their capital base and to enable them to offer products and services at subsidised rates.

[19] The DTI's Phoenix Fund was the largest contributor of revenue support (to cover the costs of operations) for CDFIs in 2003/04 and the second largest provider of capital for onward lending and investing.

[20] Most report that they intend to raise an increasing proportion of their revenues from their portfolio, training and a range of other income generating activities. They also expect to raise more investment under CITR directly from investors or through intermediaries such as wholesalers.

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